

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL MEMORANDUM**

**HB 1012 – SB 963**

March 1, 2017

**SUMMARY OF ORIGINAL BILL:** Requires the Commissioner of the Department of Revenue to annually report the total amount of revenue generated by the sales tax on the retail sale of food and food ingredients to the Chairs of the Finance, Ways and Means Committees of the General Assembly.

**FISCAL IMPACT OF ORIGINAL BILL:**

NOT SIGNIFICANT

**SUMMARY OF AMENDMENTS (003828, 004262):** Amendment 003828 deletes all language after the enacting clause. Allocates all revenue generated from the increase in the state sales and use tax from six percent to seven percent pursuant to Public Chapter 856 of the Public Acts of 2002 as follows: 75.0 percent to the General Fund; 16.6 percent to the Highway Fund; 5.6 percent to counties; and 2.8 percent to municipalities. Such allocation shall not apply to revenue generated from the single-article tax rate of 2.75 percent.

Amendment 004262 adds language to the bill as amended by amendment 003828 to exempt from the state and local sales and use tax the sale or use of cornmeal.

**FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:**

**Increase State Revenue – \$193,348,600/Highway Fund**

**Decrease State Revenue – Net Impact – \$291,868,500/General Fund**

**Increase Local Revenue – Net Impact – \$97,449,000**

Assumptions related to amendment 003828:

- Under current law, pursuant to Tenn. Code Ann. § 67-6-103(c)(1), all revenue generated from the increase in the state sales and use tax rate from six percent to seven percent, pursuant to Public Chapter 856 of the Public Acts of 2002, is allocated to the General Fund.

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- The one percent tax increase generated \$1,076,886,439 in revenue in FY15-16, all of which was deposited to the General Fund.
- The current Fiscal Review Committee staff estimates for sales tax growth rates are 4.3 percent for FY16-17 and 3.7 percent for FY17-18.
- Assuming the same growth rates for revenue generated from the one percent tax increase, FY17-18 collections are estimated to be \$1,164,750,679 [ $\$1,076,886,439 \times (1 + 4.3\%) \times (1 + 3.7\%)$ ]. This number is assumed to remain constant in subsequent years.
- The recurring increase in revenue to the Highway Fund is estimated to be \$193,348,613 ( $\$1,164,750,679 \times 16.6\%$ ).
- The recurring increase in local revenue is estimated to be \$65,226,038 for counties ( $\$1,164,750,679 \times 5.6\%$ ) and \$32,613,019 for municipalities ( $\$1,164,750,679 \times 2.8\%$ ), for a total recurring increase in local government revenue of \$97,839,057 ( $\$65,226,038 + \$32,613,019$ ).
- The recurring decrease in revenue to the General Fund is estimated to be \$291,187,670 ( $\$193,348,613 + \$97,839,057$ ).

Assumptions related to amendment 004262 and total impact of the bill as amended:

- The current state sales tax rate on the retail sale of food and food ingredients is 5.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 4.1427 percent.
- Assuming that an average household buys two bags of cornmeal per year, at an average price of \$2.99 per bag, the annual cornmeal sales in Tennessee are estimated to be \$14,977,245 (2,504,556 households x 2 bags x \$2.99 per bag).
- The recurring decrease in state sales tax collections resulting from the tax exemption is estimated to be \$718,798 [ $(\$14,977,245 \times 5.0\%) - (\$14,977,245 \times 5.0\% \times 4.1427\%)$ ].
- The recurring decrease in local sales tax collections resulting from the tax exemption is estimated to be \$405,495 [ $(\$14,977,245 \times 2.5\%) + (\$14,977,245 \times 5.0\% \times 4.1427\%)$ ].
- Fifty percent of tax savings, or \$562,147 [ $(\$718,798 + \$405,495) \times 50.0\%$ ], will be spent in the economy on other non-food sales-taxable goods and services.
- The current state sales tax rate on non-food sales-taxable goods and services is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The net recurring increase in state sales tax collections is estimated to be \$37,927 [ $(\$562,147 \times 7.0\%) - (\$562,147 \times 7.0\% \times 3.617\%)$ ].
- The total recurring increase in local sales tax collections is estimated to be \$15,477 [ $(\$562,147 \times 2.5\%) + (\$562,147 \times 7.0\% \times 3.617\%)$ ].
- The net recurring decrease in revenue to the General Fund as a result of this bill is estimated to be \$291,868,541 ( $\$291,187,670 + \$718,798 - \$37,927$ ).
- The net recurring increase in local government revenue as a result of this bill is estimated to be \$97,449,039 ( $\$97,839,057 - \$405,495 + \$15,477$ ).

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in dark ink that reads "Krista M. Lee". The signature is written in a cursive, flowing style.

Krista M. Lee, Executive Director

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